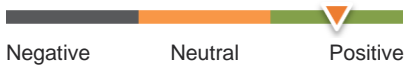


SIAM BROTHER VN JSC (SBV) - UPDATE

Market Price VND32,900	Target Price VND40,500	Dividend Yield 3.0%	Rating ADD	Sector INDUSTRIALS
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Outlook – Short term



Outlook – Long term



Valuation



16 March 2018

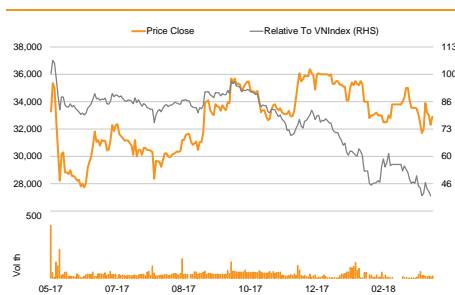
Tho Dien Hong

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Key changes in the report

- Decrease 10.0% FY18 output volume
- Increase 2.6% FY18 unit production cost

Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	36,376
52w low (VND)	27,731
3m Avg daily volume (shares)	22,668
3m Avg daily value (VNDmn)	781.7
Market cap (VNDbn)	883.9
Outstanding shares (m)	27.9
Free float (%)	25.0
TTM P/E (x)	7.9
Current P/B (x)	1.9

Ownership

Smart Investment JSC	65.4%
Vietnam Holding Ltd.	3.6%
Others	31.0%

Source: VNDIRECT

SBV still offers meaningful upside given its solid volume growth outlook which, in the short-term, depends on how fast they can complete machinery installations at the new factory. Rising material costs may pressure short-term results but we believe SBV's strong brand gives it the power to partially pass through input cost increases to customers.

Delayed factory commissioning could depress FY18 volume growth. Blended utilization across existing factories has been capped at 73% instead of our expected level of 80% and leads us to adjust our utilization assumptions for these factories across the forecasting horizon. The machinery installation in the new factory may last another quarter from now allowing ramp up of utilization to steady state only after 3Q FY2018. We apply a 10% haircut to our expected FY18 output volume to arrive at 9,330 tonnes, still a robust 27% growth YoY.

Rising raw material prices to partially weigh on margins. For 2M2018, SBV incurred a cost of VND30mn (~US\$1,300) for each tonne of Polypropylene (PP) which is 11% higher on a YoY basis. Regional PP & Polyethylene (PE) supply has been tight due to the curbs on coal-based cracking facilities in China and the rise in crude oil prices (Figure 1), both of which have led refiners to jack-up prices. We expect a 10% rise in FY18 material costs, implying that unit costs are 2.6% higher than in our previous projections.

We remain positive on FY18 results as we predict partial pass through of higher input prices. To cover the new material price surge, SBV may raise ASP by 3% this year which should drive 27% sales growth based on the aforementioned volume expectations. We also expect only a 2% rise selling expenses as SBV is unlikely to execute another expensive branding program this year. FY18 EAT could surge by 29% which is slightly below our previous expectations.

We haircut our DCF-based TP to VND40,900 due to 1) our reduction of FY2018 volume forecasts; 2) higher expected material costs. We however reiterate our Add recommendation for SBV with a 23% upside and also highlight the dividend yield of 3.0%.

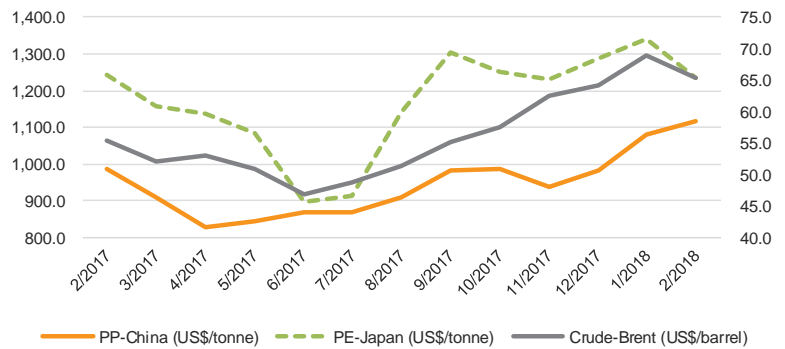
Financial summary (VND)	12-16A	12-17A	12-18E	12-19E
Net revenue (bn)	508	525	666	818
Revenue growth	10.1%	3.2%	27.0%	22.7%
Gross margin	42.5%	42.1%	40.9%	39.9%
EBITDA margin	23.0%	24.6%	22.1%	20.7%
Net profit (bn)	114	111	144	163
Net profit growth	38.6%	(2.2%)	29.3%	13.0%
Recurring profit growth	38.6%	(7.1%)	29.3%	13.0%
Basic EPS	4,162	4,070	5,262	5,944
Adjusted EPS	4,162	3,866	4,999	5,646
BVPS	15,711	16,916	16,916	16,916
ROAE	35.0%	24.9%	31.1%	35.1%

Source: VNDIRECT

FY17 Review: heavy marketing expenses and capacity constraints hit earnings

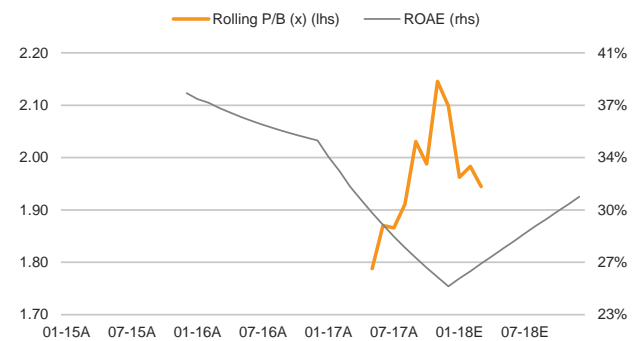
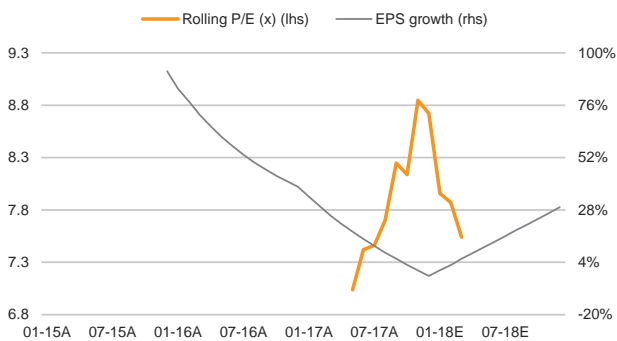
Due to capacity constraints, FY17 fishing rope sales only rose 3%, that too largely from the 3% ASP increase to counter the higher input cost in producing the fishing ropes. SBV spent a lot on branding awareness at its retail stores this year, leading to an 18% surge in SG&A expenses. Hence, SBV only reported 2% growth in its bottom line, undershooting its 10% growth target for FY2017. This branding program increased SIAM Brother brand visibility at 150 retail points of sale (out of a total of ~600 points of sale) in FY2017. SBV has not revealed any plans or total budget for the next phase of this brand awareness push. However, this program seems to be unnecessary and rather expensive (~VND50mn/store) since SBV’s 36% market share would suggest that their brand is already well known in the market.

Figure 1: Crude, PP, & PE prices



Source: Bloomberg, VNDIRECT

Valuation



Income statement

(VNDbn)	12-17A	12-18E	12-19E
Net revenue	525	666	818
Cost of sales	(304)	(394)	(492)
Gen & admin expenses	(51)	(62)	(76)
Selling expenses	(40)	(40)	(49)
Operating profit	130	170	201
Operating EBITDA	125	148	170
Depreciation and amortisation	5	23	31
Operating EBIT	130	170	201
Interest income	3	4	4
Financial expense	(6)	(12)	(20)
Net other income	2	0	0
Income from associates & JVs	0	0	0
Pre-tax profit	128	162	185
Taxation	(17)	(18)	(22)
Minority interests	0	0	0
Net profit	111	144	163
Adj. net profit to ordinary	111	144	163
Ordinary dividends	(91)	(89)	(115)
Retained earnings	20	55	47

Balance sheet

(VNDbn)	12-17A	12-18E	12-19E
Cash and equivalents	154	177	173
Short term investments	6	6	6
Accounts receivables	159	236	280
Inventories	57	57	72
Other current assets	35	35	35
Total current assets	410	511	566
Fixed assets	135	162	152
Total investments	0	0	0
Other long-term assets	76	76	76
Total assets	621	749	794
Short-term debt	51	179	223
Accounts payable	19	19	19
Other current liabilities	81	81	81
Total current liabilities	151	279	323
Total long-term debt	7	7	7
Other liabilities	1	1	1
Share capital	274	274	274
Retained earnings reserve	80	80	80
Shareholders' equity	463	463	463
Minority interests	0	0	0
Total liabilities & equity	621	749	794

Cash flow statement

(VNDbn)	12-17A	12-18E	12-19E
Pretax profit	128	162	185
Depreciation & amortisation	5	23	31
Tax paid	(4)	(18)	(22)
Other adjustments	(112)	(11)	(12)
Change in working capital	45	(77)	(59)
Cash flow from operations	63	79	123
Capex	0	(50)	(21)
Proceeds from assets sales	0	0	0
Others	0	4	4
Other non-current assets changes	(132)	0	0
Cash flow from investing activities	(132)	(47)	(17)
New share issuance	0	0	0
Shares buyback	0	0	0
Net borrowings	21	128	44
Other financing cash flow	(1)	0	0
Dividends paid	0	(137)	(155)
Cash flow from financing activities	20	(9)	(110)
Cash and equivalents at beginning of period	202	154	177
Total cash generated	(49)	24	(4)
Cash and equivalents at the end of period	153	177	173

Key ratios

	12-17A	12-18E	12-19E
Dupont			
Net profit margin	21.2%	21.6%	19.9%
Asset turnover	0.85	0.97	1.06
ROAA	18.0%	21.0%	21.1%
Avg assets/avg equity	1.39	1.48	1.67
ROAE	24.9%	31.1%	35.1%
Efficiency			
Days account receivable	81	105	105
Days inventory	68.3	52.7	53.7
Days creditor	23.2	17.9	14.3
Fixed asset turnover	4.45	4.48	5.21
ROIC	21.4%	22.2%	23.5%
Liquidity			
Current ratio	2.72	1.83	1.75
Quick ratio	2.34	1.63	1.53
Cash ratio	1.06	0.66	0.55
Cash cycle	126	140	145
Growth rate (yoy)			
Revenue growth	3.2%	27.0%	22.7%
Operating profit growth	(6.3%)	31.3%	17.9%
Net profit growth	(2.2%)	29.3%	13.0%
EPS growth	(2.2%)	29.3%	13.0%
Share value			
Basic EPS (VND)	4,070	5,262	5,944
BVPS (VND)	16,916	16,916	16,916

Source: VNDIRECT

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBT does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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Stock Ratings

Definition:

- Add The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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